



Economic Indicators

Prepared by the Department of Finance • April 2007

*The purpose of this report is to keep policy makers apprised of changes in
the national and local economies that
the Montgomery County Department of Finance
believes may impact current and/or future revenues and expenditures.*

*This report is also available through the Internet
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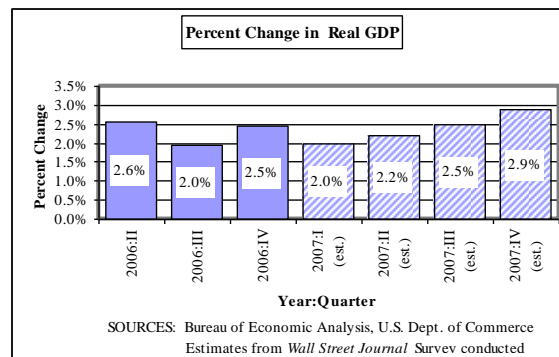
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NATIONAL ECONOMY

According to the final estimate from the Bureau of Economic Analysis (BEA), U.S. Department of Commerce, the U.S. economy grew at a 2.5 percent seasonally adjusted annual rate during the fourth quarter of 2006. During the final three quarters of 2006, real GDP grew an average of 2.3 percent which was significantly below the 3.6 percent average rate from the first quarter of 2003 to the first quarter of 2006. The significant deceleration in the growth rate is primarily attributed to the dramatic decline in residential investment. During the fourth quarter of 2006, housing construction decreased nearly 20 percent which followed an 18.6 percent decline during the third quarter. According to Maury Harris of UBS, “we (UBS) still expect the ongoing housing-led U.S. economic growth slowdown to become more pronounced.” According to the April survey of economists by the *Wall Street Journal*, growth during the recently completed first quarter was 2.0 percent, three-tenths of a percentage point lower than the March survey. Another factor in the weak fourth quarter was business investment in equipment and software which declined nearly 5 percent and increased a meager 0.5 percent on average for the last three quarters of 2006. Residential investment and business spending are not expected to improve during the first quarter of 2007. Based on preliminary data from the Census Bureau, housing starts were down 30.6 percent during the first quarter compared to the same period last year and new orders for nondefense capital goods, excluding aircraft, declined 1.2 percent during the first two months of this year compared to January-February 2006.

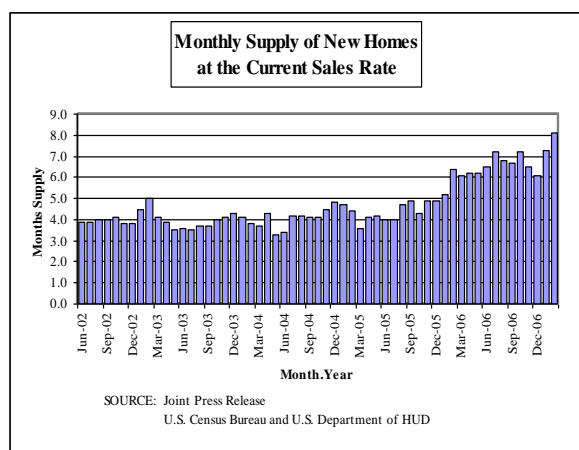


Sales of existing homes dropped to a 6.12 million unit annual rate in March, which was 8.4 percent below February sales and 11.3 percent below March 2006. March sales were the lowest level since February 2004 and experienced the largest one-month decrease since January 1989 (↓12.6%). The median price for an existing home increased 1.6 percent in March but was 0.3 below the March 2005 median price. For the first three months of this year, prices were down 1.4 percent compared to the same period last year.

The National Association of Realtors (NAR) attributes the dramatic decline in sales to unusually bad weather and dampened further by the decrease in subprime lending. NAR also revised its forecast of home sales for 2007. In its April forecast, sales of existing homes are expected to be 2.2 percent below 2006 sales and median home prices 0.7 percent below last year.

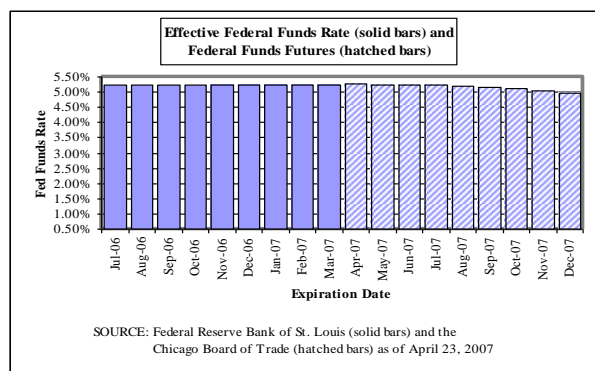
Sales of new single-family homes in February were down 3.9 percent on a seasonally adjusted annual rate compared to January's sales and 18.3 percent below February 2006. The inventory of new homes for sales represents an eight-month supply at the current sales rate. The dramatic increase in the inventory-to-sales ratio that began in February 2006 is the primary reason for the significant decline in residential investment during the final three

quarters of last year. The median price of a new home was \$250,000 compared to \$243,200 in January 2006 and \$250,800 in February 2006. NAR's April forecast estimates that new home sales in 2007 will be 14.1 percent below last year but median prices up a meager 0.4 percent.



On March 21st, the Federal Open Market Committee (FOMC) of the Federal Reserve kept the target rate for federal funds at 5.25 percent. This was the sixth consecutive meeting in which the FOMC did not change the target rate. However, inflation remains the primary concern of the FOMC. According to the minutes of that meeting, the participants were concerned that the “prevailing level of inflation remained uncomfortably high, and the latest information cast some doubt on whether core inflation was on the expected downward path.” The participants agreed that “risks around the expected and desired path of a gradual decline in core inflation remained mainly to the upside”, that is, upside risks to inflation appeared to have increased in recent months. In its press release, the FOMC stated that “recent readings on core inflation have been somewhat elevated ... the high level of resource utilization has the potential to sustain those pressures.”

As measured by the price index for personal consumption expenditures excluding food and energy (core PCE), inflation grew 2.4 percent from February 2006 to February 2007. That rate is well above the Fed's target range between 1 and 2 percent. Because of the Fed's concern about inflation and inflationary expectations, the federal funds futures market does not expect the Fed to lower the target rate on federal funds until the latter part of this year.



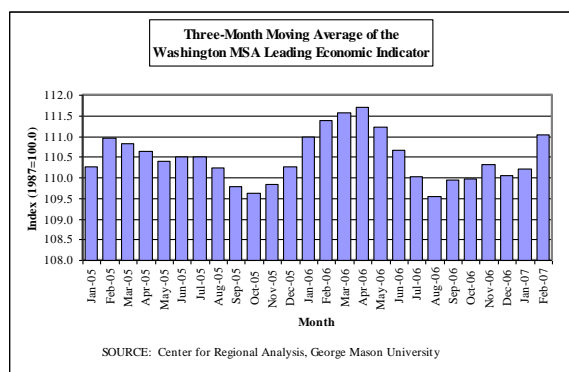
The stock market experienced one of its weakest quarterly performances in recent years. The effects of the subprime mortgage market coupled with the global market correction in February affected the stock market during the first quarter. The Dow Jones Industrial Average was down 0.9 percent, the first decline since the second quarter of 2005 (↓2.2%). The broader S&P 500 was up only 0.2 percent for the quarter, and the NASDAQ increased only 0.3 percent.

REGIONAL ECONOMY

According to the latest report from the Center for Regional Analysis (CRA), George Mason University, the Washington Leading Index, which forecasts the performance of the regional economy six to eight months ahead, increased 1.85 percent in February – the third increase in a row. For the twelve-month period ending in

February, the leading index increased 0.6 percent. While residential building permits increased for a second month, other indicators suggest slower economic growth for the region for the remainder of the year.

According to CRA's latest report about the Washington Leading Index, "the flattening out of the Index's growth curve appears to be pointing to a future growth rate that reflects the maturing stage of the recent business cycle." Federal procurement has driven the local economies rapid expansion during the early part of the decade. Since 2004, the growth of federal procurement has decelerated and as such the economy's growth also slowed down.

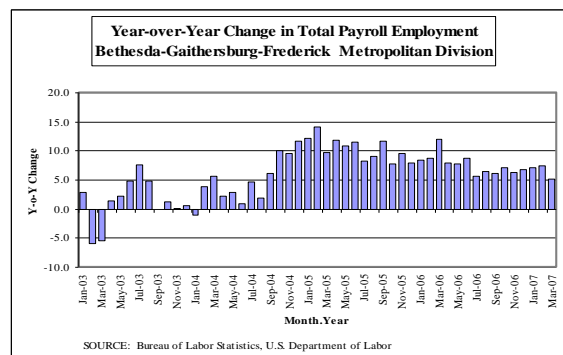


The Washington metropolitan area continues to have one of the lowest unemployment rates in the country. Of the 49 metropolitan areas with a population of more than one million in 2000, the Washington region ranked second with an unemployment rate of 3.2 percent.

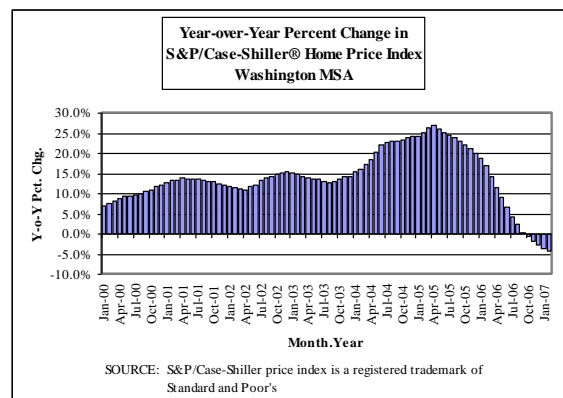
For the three years prior to 2006, regional businesses added an average of 63,300 jobs per year based on establishment data. However, in March, BLS's annual re-benchmarking of previous monthly employment reduced the previous job growth of 71,000 in 2006 to slightly less than 50,000. According to CRA, the largest revision occurred in suburban Maryland.

However a different measure of job growth is provided by the household survey or labor force data. That data showed a gain of 75,000 jobs according to CRA.

For 2006, the Bethesda-Gaithersburg-Frederick (B-G-F) metropolitan division added nearly 8,000 jobs and had an unemployment rate of 2.9 percent. During the first quarter of 2007, the B-G-F metropolitan division added an average of 6,700 jobs per month compared to the same period in 2006 and experienced an average unemployment rate of 3.2 percent.



Home prices in the region have weakened dramatically since May of last year. Based on the S&P/Case-Shiller® Home Price Index for the Washington region, monthly prices have steadily declined such that the February index was 5.3 percent below the peak May 2006 index. According to the options market, prices are expected to decline the rest of this year.



The continued decline in home prices coupled with the increase in the number of non-traditional mortgages could increase the foreclosure rate for subprime loans in the metropolitan area. According to a study by the Center for Responsible Learning, the projected foreclosure rate for homeowners with subprime loans originated in 2006 could increase to 22.8 percent. However, a recent study by Loan Performance reports that Maryland and Virginia rank among those states with the lowest delinquency rates for subprime loans. Strong employment growth and low unemployment in the region are significant factors in such a low rate.

MONTGOMERY COUNTY ECONOMIC INDICATORS

Montgomery County experienced mixed economic activity during the first nine-months of this fiscal year. The primary reasons for the County's mixed performance were a continuation in the contraction of residential construction growth, a dramatic decline in home sales, and slowdown in consumer spending.

Residential construction activity in the County declined during the past nine months. The number of projects and the value added were down significantly. However, non-residential construction, especially new commercial properties, improved so far this year.

Home sales in the County declined nearly 22 percent during this period compared to the same nine-month period in FY06. Although housing prices continued to increase, they have decelerated dramatically to a 1.2 percent increase compared to over 16.8 percent during the previous fiscal year.

A number of economic indicators for the County continued to experience significant improvement during this period. Foremost among the indicators that exhibited strong performance was the labor market.

Employment Situation

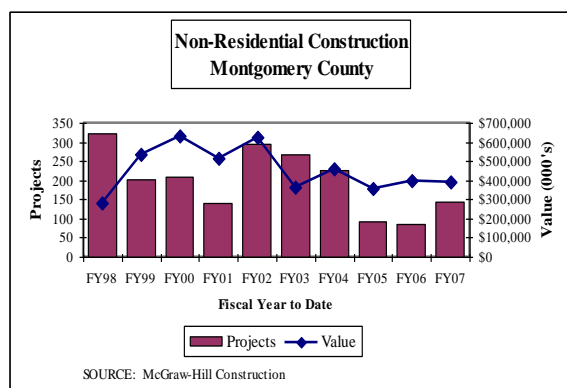
Based on data derived by the Department of Finance, the County's total payroll employment grew by 4,300 (↑0.9%) during the twelve-month period ending March 2007. While payroll employment made modest gains during this period, data from the labor force series reported that employment based on place of residence rather than place of employment grew 1.0 percent between February 2006 and February 2007, or nearly 5,200. With the slight improvement in resident employment, the unemployment rate for the County remained well below the State's average. As of February, the County's rate at 2.9 percent was more than a full percentage point below the State's rate in February (4.1%).

Construction Activity

Construction activity in the County during the past nine months has been mixed. The number of non-residential construction projects was up nearly 70 percent. However, the value of new non-residential construction declined slightly by 2.4 percent. Construction of new homes continued to decline. With home sales and homebuilding declining and price increases decelerating, the residential real estate market continued to experience a correction that began in the summer of 2005.

The major contributor to the growth in non-residential construction was commercial

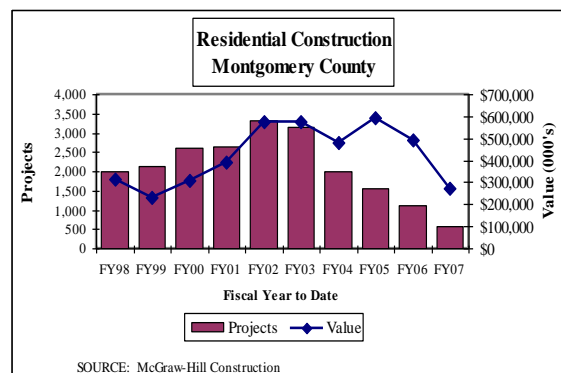
construction, led by the office and banking sector. Additions of square footage were up nearly 15 percent during this fiscal year and represented nearly 68 percent of the added non-residential capacity. Office and bank building properties experienced the most dramatic turnaround in FY07 to date. Additions to square footage were up 69.3 percent and followed an increase of 78.3 percent for the same nine-month period in FY06.



The office vacancy rate for Class A property in the County was 6.6 percent during the first quarter of this year. That rate represents a slight increase compared to the 6.1 rate in December of last year. However, since March 2005, the vacancy rate for Class A property has declined 3.7 percentage points. Excluding Frederick County, Montgomery County had the lowest rate amongst the other jurisdictions in the Washington metropolitan region.

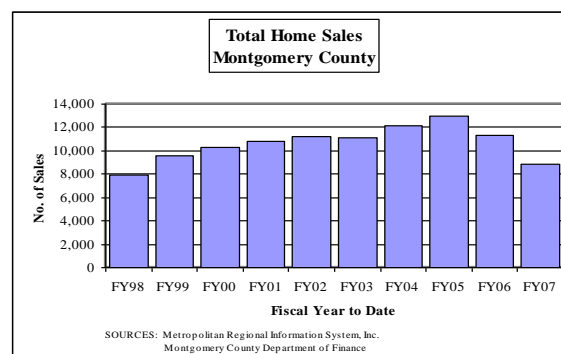
Residential Real Estate

Construction of new residential properties continued to decrease in response to the correction in the real estate market that began in summer of 2005. Even with the mild weather toward the end of calendar year 2006, the number of new residential projects have declined (↓49.5%) this fiscal year to date and the total value of new construction have decreased 44.1 percent.



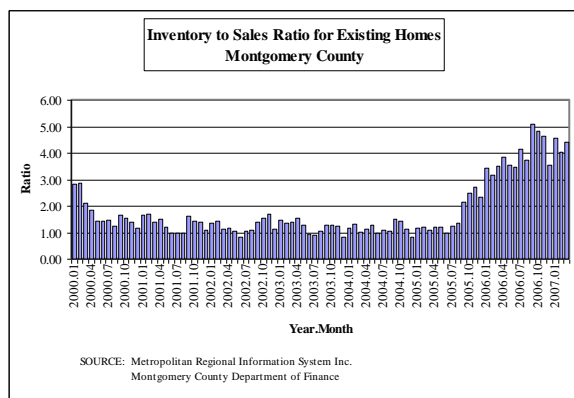
The number of residential units built in the County has totaled 1,242 in FY07 to date, a decline of 36 percent. That decline has been across the board with the construction of new single-family houses down from 1,010 units during the first nine months of FY06 to 523 units so far this fiscal year, and the number of multi-family units has decreased from 834 units to slightly less than 700 units.

Home sales have declined 21.3 percent during FY07, which followed a 13.0 percent decline over the same nine-month period in FY06. However, average home prices were up a modest 1.2 percent this fiscal year which followed increases of 17.3 percent and 16.8 percent for the same nine-month period in FY05 and FY06, respectively.



The significant contraction in sales is reflected in the dramatic increase in inventory-to-sales ratio. From June 2005 to

March 2007, the ratio steadily increased from 0.98 to 4.42. This means that in June of 2005 for every home listed on the market, there was one buyer. By March of this year, for every four plus homes listed, there was only one buyer. Such a high ratio suggests that buyers are not in a rush to purchase a home. That fact may be attributed to an affordability issue or the potential buyer is anticipating either a further deceleration or a decline in prices. As a result, even though thirty-year fixed rate mortgages are 6.17 percent as of April 19, potential home buyers are still anticipating further corrections in home prices and are sitting on the sidelines.



Retail Sales

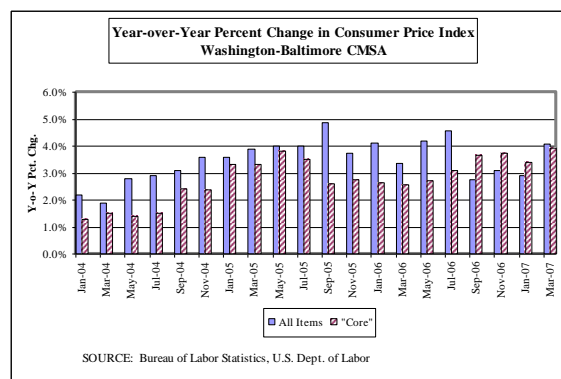
Using sales tax receipts as a measure of retail sales activity in the County, the growth of sales of durable and nondurable goods were up 2.0 percent during the first nine months of 2007 compared to the same period in FY06. Purchases of nondurable goods, which include food and beverage, apparel, general merchandise, and utilities and transportation, increased 2.1 percent

during this period while sales of durable goods were down 4.9 percent.

Purchases of energy products ($\uparrow 7.2\%$) and general merchandise ($\uparrow 3.7\%$) led sales of nondurable goods. Purchases of building and industrial supplies ($\downarrow 5.6\%$), furniture and appliances ($\downarrow 9.2\%$) and hardware, machinery and equipment ($\downarrow 5.6\%$) reflected the continued slowdown in the housing market. By contrast, automotive sales were up 2.2 percent.

Consumer Prices and Inflation

As measured by the Consumer Price Index for All Urban Consumers (CPI-U), inflation in the Washington-Baltimore consolidated statistical metropolitan area increased 4.1 percent over the twelve-month period ending in March. That rate was well above the national average of 2.8 percent and a significant acceleration since July 2006, the height of energy prices. Consumer prices excluding food and energy purchases were up significantly at 3.9 percent in the region, based on the latest data available compared to 2.5 percent for the nation over the same March 2006-to-March 2007 period.



METROPOLITAN AREA OFFICE MARKET

Office Vacancy Rate by Jurisdiction and Class, 2007:1Q

<i>Jurisdiction</i>	Class A	Class B	Class C	Total
Loudoun	10.55%	16.91%	2.80%	12.99%
Fairfax	8.19%	11.24%	7.45%	9.17%
Frederick	1.79%	14.29%	11.30%	10.06%
Alexandria/Arlington	10.19%	8.26%	5.87%	9.07%
Montgomery	6.58%	9.15%	8.33%	7.86%
District of Columbia	7.76%	5.80%	3.22%	6.69%
Prince George's	19.38%	11.65%	7.91%	14.06%
<i>Metropolitan Area</i>	8.58%	9.10%	5.82%	8.56%

Vacant Office Space Inventory by Jurisdiction and Class (sq.ft.)

<i>Jurisdiction</i>	Class A	Class B	Class C	Total
Loudoun	703,440	949,565	15,875	1,668,880
Fairfax	5,234,924	3,626,875	198,749	9,060,548
Frederick	31,859	464,421	86,771	583,051
Alexandria/Arlington	2,958,451	1,619,365	301,330	4,879,146
Montgomery	1,923,310	2,458,372	499,366	4,881,048
District of Columbia	5,608,040	2,519,281	361,856	8,489,177
Prince George's	1,717,840	1,301,827	260,480	3,280,147
<i>Region</i>	18,177,864	12,939,706	1,724,427	32,841,997

Office Space Inventory by Jurisdiction and Class (sq.ft.)

<i>Jurisdiction</i>	Class A	Class B	Class C	Total
Loudoun	6,668,694	5,615,960	567,103	12,851,757
Fairfax	63,900,711	32,281,773	2,666,166	98,848,650
Frederick	1,775,843	3,250,968	767,836	5,794,647
Alexandria/Arlington	29,042,805	19,611,427	5,131,357	53,785,589
Montgomery	29,217,769	26,852,960	5,994,304	62,065,033
District of Columbia	72,275,628	43,428,677	11,225,848	126,930,153
Prince George's	8,864,512	11,176,335	3,293,220	23,334,067
<i>Region</i>	211,745,962	142,218,100	29,645,834	383,609,896

Share of Office Space Inventory by Jurisdiction and Class

<i>Jurisdiction</i>	Class A	Class B	Class C	Total
Loudoun	51.9%	43.7%	4.4%	100.0%
Fairfax	64.6%	32.7%	2.7%	100.0%
Frederick	30.6%	56.1%	13.3%	100.0%
Alexandria/Arlington	54.0%	36.5%	9.5%	100.0%
Montgomery	47.1%	43.3%	9.7%	100.0%
District of Columbia	56.9%	34.2%	8.8%	100.0%
Prince George's	38.0%	47.9%	14.1%	100.0%
<i>Metropolitan Area</i>	55.2%	37.1%	7.7%	100.0%

Share of Total Regional Vacant Office Space by Jurisdiction and Class

<i>Jurisdiction</i>	Class A	Class B	Class C	Total
Loudoun	3.9%	7.3%	0.9%	5.1%
Fairfax	28.8%	28.0%	11.5%	27.6%
Frederick	0.2%	3.6%	5.0%	1.8%
Alexandria/Arlington	16.3%	12.5%	17.5%	14.9%
Montgomery	10.6%	19.0%	29.0%	14.9%
District of Columbia	30.9%	19.5%	21.0%	25.8%
Prince George's	9.5%	10.1%	15.1%	10.0%
<i>Total</i>	<i>100.0%</i>	<i>100.0%</i>	<i>100.0%</i>	<i>100.0%</i>

SELECTED ECONOMIC INDICATORS	Reporting Period	Current Period	Prior Year's Period	Year To-Date		
				2007	2006	2006
Leading Indicators						
National	Mar '07	0.1%		-0.6%		0.1%
Washington MSA	Feb '07	1.8%		-0.1%		-0.7%
Coincident Indicators						
National	Mar '07	0.1%		1.8%		2.2%
Washington MSA	Feb '07	1.2%		-0.7%		0.2%
Consumer Confidence Index						
National	Mar '07	-3.6%		3.6%		6.0%
South Atlantic Region	Mar '07	-11.8%		1.3%		0.7%
Consumer Sentiment (University of Michigan)	Apr '07 (p)	-3.5%		2.2%		0.2%
Consumer Price Index						
All Items (nsa)						
National	Mar '07	2.8%		2.4%		3.2%
Washington - Baltimore CMSA	Mar '07	4.1%		3.5%		3.6%
Core CPI (nsa)						
National	Mar '07	2.5%		2.6%		2.5%
Washington - Baltimore CMSA	Mar '07	3.9%		3.7%		3.1%
Retail Trade						
National (sales - nsa)	Mar '07	3.8%		3.9%		5.9%
Washington MSA (sales - nsa)	Feb '07	3.4%		0.1%		4.5%
Maryland (sales tax)	Feb '07	0.1%		1.7%		4.9%
Montgomery County (sales tax)	Feb '07	8.3%		3.2%		3.5%
Employment						
National (labor force data - nsa)	Mar '07	145,323,000	142,772,000	144,692,000	142,082,000	144,427,000
- Percent Change		1.8%		1.8%		1.9%
Bethesda-Federick-Gaithersburg (establish.)	Mar '07 (p)	578,000	572,800	574,800	568,200	576,900
- Percent Change		0.9%		1.2%		1.4%
Montgomery County (labor force data)	Feb '07	502,835	497,711	504,759	497,066	504,751
- Percent Change		1.0%		1.5%		2.6%
Montgomery County (QCEW)	Sept. '06	467,103	462,450	n.a.	n.a.	n.a.
- Percent Change		1.0%				
Unemployment						
National (nsa)	Mar '07	4.5%	4.8%	4.8%	5.0%	4.6%
Maryland (nsa)	Mar '07	3.6%	3.7%	4.0%	3.9%	3.9%
Montgomery County (nsa)	Feb '07	2.9%	2.8%	3.1%	2.9%	2.9%
Construction						
Construction Starts - Montgomery County						
Total (\$ thousands)	Mar '07	\$66,854	\$42,678	\$185,084	\$208,754	\$1,360,774
- Percent Change		56.6%		-11.3%		-0.5%
Residential (\$ thousands)	Mar '07	\$29,257	\$35,391	\$92,157	\$109,471	\$657,118
- Percent Change		-17.3%		-15.8%		-15.3%
Non-Residential (\$ thousands)		\$37,597	\$7,287	\$92,927	\$99,283	\$703,656
- Percent Change		415.9%		-6.4%		19.0%
Building Permits (Residential)						
National	Feb '07	109,891	151,950	222,235	301,020	1,837,287
- Percent Change		-27.7%		-26.2%		-14.4%
Maryland	Feb '07	1,881	2,197	3,140	3,835	27,062
- Percent Change		-14.4%		-18.1%		-16.2%
Montgomery County	Feb '07	306	264	408	342	3,038
- Percent Change		15.9%		19.3%		-14.8%
Building Permits (Non-Residential)						
Montgomery County	Mar '07	151	125	377	455	1,775
- Percent Change		20.8%		-17.1%		-17.6%
Real Estate						
National						
Sales (saar)	Mar '07	6,120,000	6,900,000	6,410,000	7,020,000	6,478,000
- Percent Change		-11.3%		-8.7%		-8.5%
Median Price	Mar '07	\$217,000	\$217,600	\$214,000	\$217,000	\$221,900
- Percent Change		-0.3%		-1.4%		1.0%
Montgomery County						
Sales	Mar '07	924	1,105	2,516	2,696	13,523
- Percent Change		-16.4%		-6.7%		-20.5%
Average Price	Mar '07	\$520,684	\$507,297	\$524,710	\$506,698	\$529,511
- Percent Change		2.6%		3.6%		4.4%
Median Price	Mar '07	\$430,000	\$427,500	\$431,583	\$419,917	\$439,000
- Percent Change		0.6%		2.8%		3.3%
Average Days on the Market	Mar '07	93	50	94	53	57

NOTES:

(nsa): not seasonally adjusted

(p): preliminary